

D-3

State of Hawaii
Department of Land and Natural Resources
Land Division
Honolulu, Hawaii 96813

May 26, 2006

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

PSF: 06HD-016

HAWAII

Consent to Assignment of General Lease No. S-5547, The Gas Company, L.L.C., as owned by HGC Holdings, LLC, as owned by k1 Ventures Limited, Assignor, to The Gas Company, L.L.C., as owned by HGC Holdings, LLC, as owned by Macquarie Gas Holdings LLC, Assignee, Waiakea House Lots, First Series, Lot A, Waiakea, South Hilo, Hawaii, TMK: (3) 2-2-027: 02

APPLICANT:

The Gas Company, L.L.C., a Hawaii limited liability company, whose business and mailing address is 745 Fort Street Mall, 18th Floor, Honolulu, Hawaii 96813.

LEGAL REFERENCE:

Section 171-36(a) (5), Hawaii Revised Statutes, as amended.

LOCATION AND AREA:

Portion of the Government (Crown) Land of Waiakea, being Lot A, Waiakea House Lots, First Series, situated at Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-027: 02 containing 10,000 square feet, more or less, as shown on the attached map labeled Exhibit A.

TRUST LAND STATUS:

Section 5(b) lands of the Admission Act.

DHHL 30% entitlement lands pursuant to the State Constitution: No

CHARACTER OF USE:

For the construction, maintenance and operation of a utility booster station site.

TERM OF LEASE:

Sixty (60) years, commencing on April 14, 1997 and expiring on April 13, 2057. First scheduled rental reopening is on April 14, 2012.

ANNUAL RENTAL:

Four thousand eight hundred dollars (\$4,800).

CONSIDERATION:

Sales price of \$230,700,000 after Consumer Advocate settlement givebacks totaling \$7,300,000.

RECOMMENDED PREMIUM:

General Lease No. S-5547 contains the assignment premium provision. Based on the Department's assignment premium policy, the staff appraiser determined that a premium of \$17,984 is applicable for the subject assignment (Exhibit B).

DCCA VERIFICATION:

Assignor:	Place of business registration confirmed:	YES
	Registered business name confirmed:	YES
	Good standing confirmed:	YES
Assignee:	Place of business registration confirmed:	YES
	Registered business name confirmed:	YES
	Good standing confirmed:	YES

REMARKS:

The Gas Company, L.L.C. (TGC) is a wholly owned subsidiary of HGC Holdings, LLC (HGC Holdings). The proposed assignment has two parts.

First, the 0.01% membership interest currently held by HGC Managing Member, LLC (HGC Managing Member), a Hawaii limited liability company, in HGC Holdings (which in turn owns 100% of the membership interest in TGC) will be transferred to HGC Investment Corporation, a Delaware corporation, which will be 100% owned by K-1 HGC Investment, LLC (K-1 HGC Investment), a Hawaii limited liability company, such that K-1 HGC Investment will, as a result, effectively hold, either directly or indirectly, 100% of the membership interest in HGC Holdings (Exhibit C).

Second, k1 Ventures Limited will thereafter transfer all if its interest in K-1 HGC Investments to Macquarie Gas Holdings LLC (MGH), thereby effectively transferring control of K-1 HGC Investment, and ultimately, HGC Holdings and TGC to MCH (Exhibit C).

As TGC is a public utility regulated by the Hawaii Public Utilities Commission (PUC), an application was filed with the PUC to approve the transfer of control of TGC. The PUC approved the transfer of control in Decision and Order No. 22449 on May 3, 2006.

TGC holds other leases and permits with the Department of Land and Natural Resources. However, only General Lease No. S-5547 contains the assignment premium provision. The other leases and permits will be dealt with collectively in a future request.

The Lessee is in compliance with all the terms and conditions of General Lease No. S-5547.

The Assignee has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

Also, there are no pertinent issues or concerns affecting the subject lease at this time.

RECOMMENDATION:

That the Board consent to the assignment of General Lease No. S-5547 from The Gas Company, L.L.C., as owned by HGC Holdings, LLC, as owned by K1 Ventures Limited, Assignor, to The Gas Company, L.L.C., as owned by HGC Holdings, as owned by Macquarie Gas Holdings, LLC, Assignee, subject to the following:

1. Payment of the Assignment Premium of \$17,984 by The Gas Company, L.L.C.
2. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time.
3. Review and approval by the Department of the Attorney General.
4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

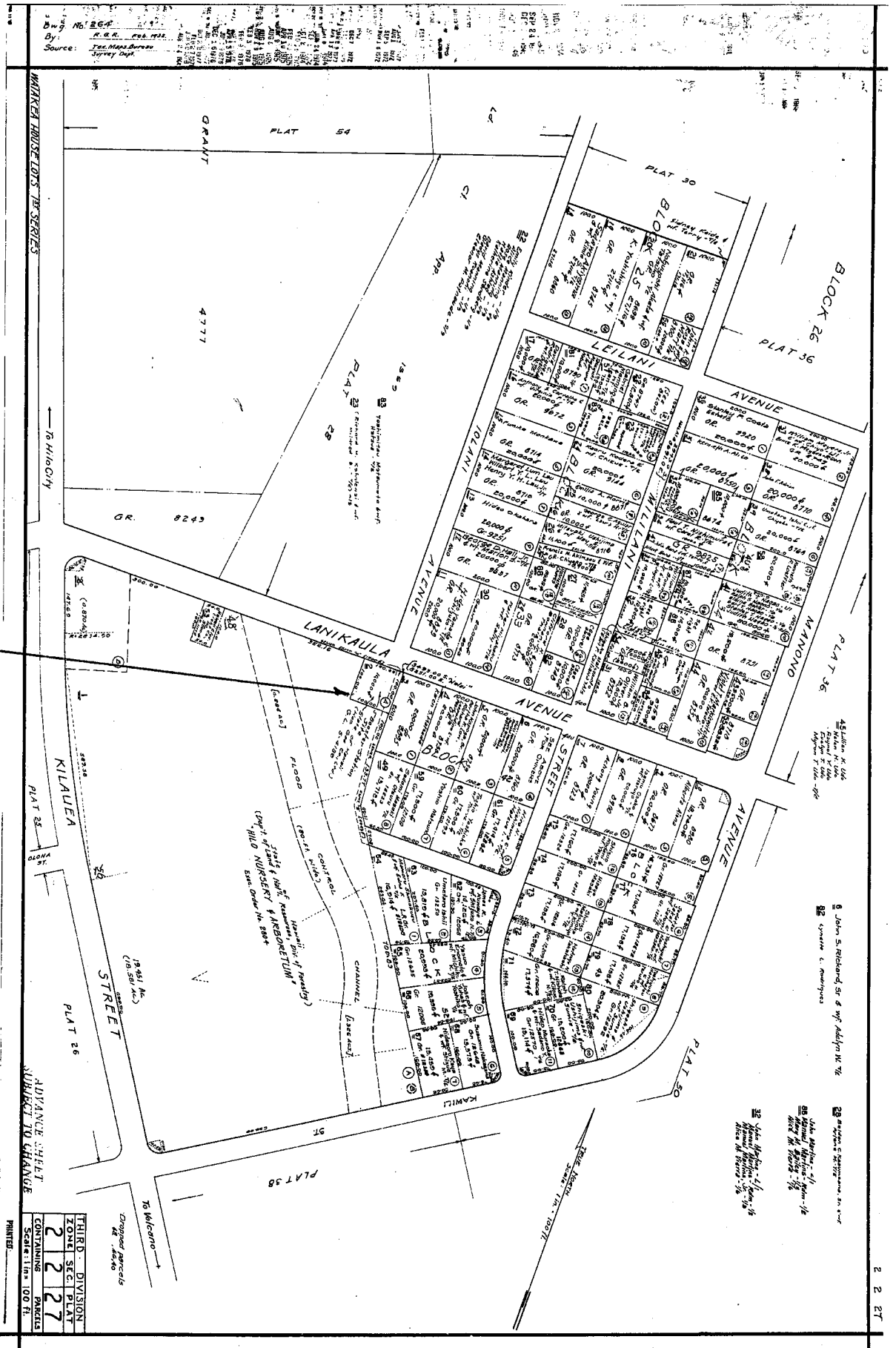
Respectfully Submitted,

Gary Martin

Gary Martin
Land Agent

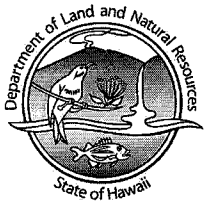
APPROVED FOR SUBMITTAL:

Peter T. Young
Peter T. Young, Chairperson



GLS-5547 Site

LINDA LINGLE
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

May 15, 2006

PETER T. YOUNG
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
DEPUTY DIRECTOR

DEAN NAKANO
ACTING DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

MEMORANDUM

TO: Peter T. Young, Chairperson

THROUGH: Russell Y. Tsuji, Land Division Administrator

FROM: Cyrus C. Chen, Real Estate Appraisal Manager 

SUBJECT: In-House Valuation Recommendation – Assignment of Lease Premium
Evaluation for Transfer of Lease between k1 Ventures (Transferor) and
Macquarie Gas Holdings, LLC (Transferee)

Lease No.:	GL S-5547
Applicant:	The Gas Company
Location:	Waiakea, Hawaii
Tax Map Key:	(3) 2-2-27: 2
Char of Use:	Construction, maintenance & operation of a utility booster station site
Valuation Date:	Current

We have been requested to provide an in-house evaluation of the assignment of lease between k1 Ventures and Macquarie Gas Holdings LLC. As part of a purchase agreement, k1 Ventures is transferring control and accompanying assets of The Gas Co. to Macquarie Gas Holdings LLC. The subject ground lease contains provisions and conditions which must be satisfied in order to complete the assignment including paying the State a premium on the assignment. According to this policy, the State's share or premium is a percentage based on the difference between the assignment consideration and the depreciated cost of lessee improvements and trade fixtures.

The value of the improvements and trade fixtures were not provided as they are part or a larger network of equipment involved in the Applicant's business of natural and propane gas distribution. Therefore, an allocation of the depreciated value of the improvements would be speculative and impractical. Therefore, The Gas Co. considered the present value of the subject lease in which location of the improvements are situated.

EXHIBIT " B "

Mike Laporte, a Gas Co. representative, performed the calculation of the estimated assignment premium. Since the total sales price of \$238,000,000 was not allocated among the different asset components of the transfer, he derived a ratio based on the excess of the sales price over the net asset value, resulting in a ratio of 0.6795. The present value of the lease was then calculated using an 8% discount rate. This ratio was then applied to the present value of the subject lease. A 50% premium percentage was then applied to this value to derive the premium due to the State. However, since more than five years have elapsed since the lease commencement, a 45% premium percentage was applied to the premium amount instead of 50%. Therefore, as of the date of this evaluation, Staff recommends acceptance of Applicant's estimate of assignment premium due of \$17,984.

Approved/Disapproved:

Peter T. Young, Chairperson

Date

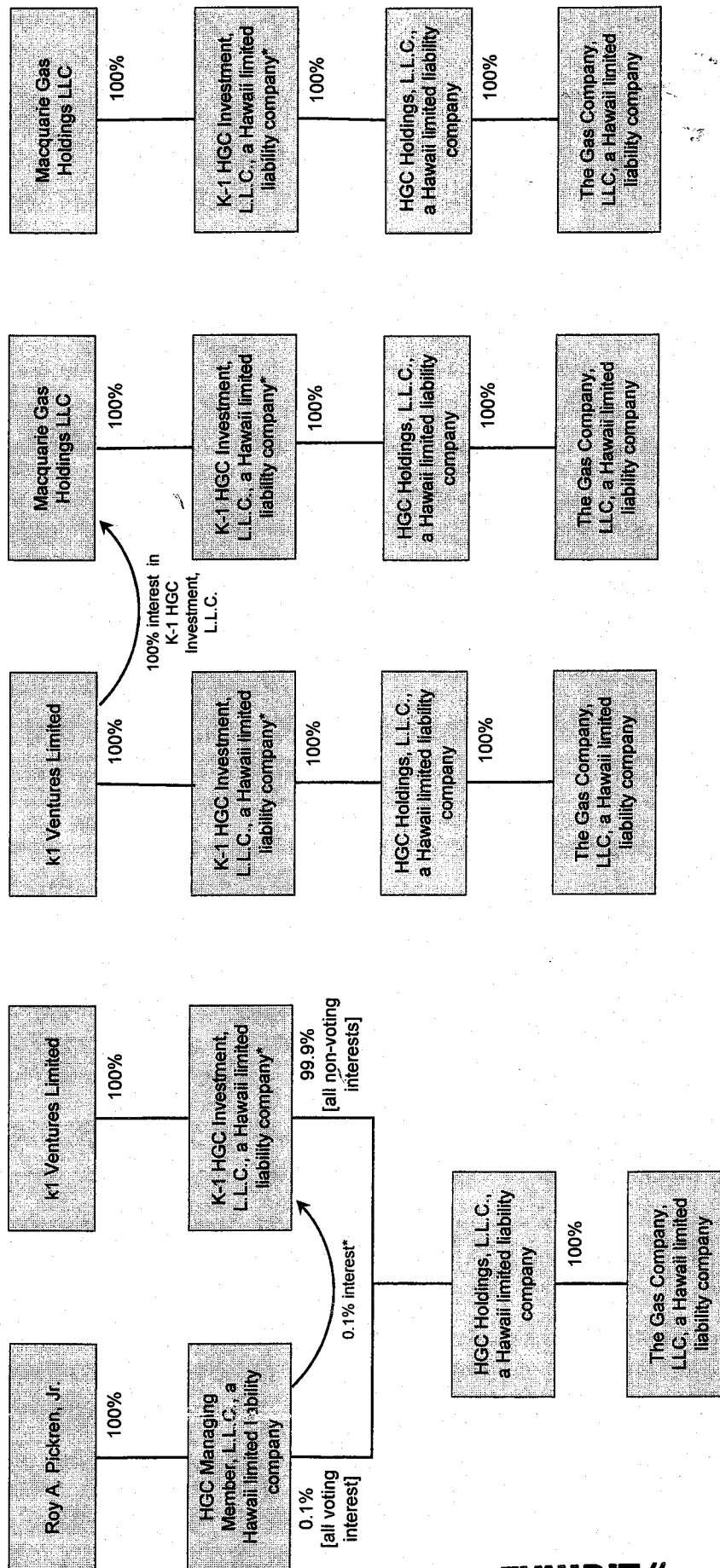
cc: District Branch Files
Central Files

CHART DEPICTING PROPOSED CHANGE OF CONTROL AND POST CLOSING ORGANIZATIONAL STRUCTURE

Part 1: Proposed Transfer of HGC Managing
Member, L.L.C.'s 0.1% membership interest to
K-1 HGC Investment, L.L.C.

Part 2: Proposed Transfer of K-1 HGC
Investment, L.L.C.'s 100% membership interests
to Macquarie Gas Holdings LLC

Post Closing
Organizational Structure



* As discussed in the Application, the 0.1% membership interest in HGC Holdings, L.L.C. currently held by HGC Managing Member, L.L.C. will be transferred to either K-1 HGC Investment, L.L.C. or its wholly-owned subsidiary.